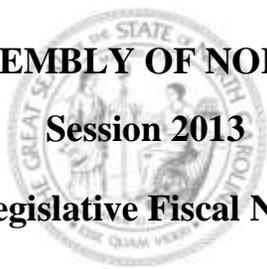


# GENERAL ASSEMBLY OF NORTH CAROLINA



**Session 2013**

## Legislative Fiscal Note

**BILL NUMBER:** Senate Bill 480 (Third Edition)

**SHORT TITLE:** UNC Capital Improvement Projects.

**SPONSOR(S):** Senator Apodaca

<b>FISCAL IMPACT</b>					
(\$ in millions)					
<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> No Estimate Available					
<b>State Impact</b>	<b>FY 2013-14</b>	<b>FY 2014-15</b>	<b>FY 2015-16</b>	<b>FY 2016-17</b>	<b>FY 2017-18</b>
Special Fund Revenues:	See Assumptions and Methodology				
Special Fund Expenditures:	See Assumptions and Methodology				
State Positions:					
<b>NET STATE IMPACT</b>					

**PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED:**

University of North Carolina System

**EFFECTIVE DATE:** When the Bill becomes law

**TECHNICAL CONSIDERATIONS:**

None

**BILL SUMMARY:** Senate Bill 480 authorizes the campuses of the University of North Carolina (UNC) to finance and construct capital improvement projects utilizing obligated resources. The projects are discussed in the Assumptions and Methodology Section of this Note. The statutory framework to authorize and issue debt lies within Article 3 of G.S. 116D. Under this Article, obligated resources refers to: rents, charges, or fees; earnings on investments of endowment funds, overhead receipts, and other resources that do not include appropriations from the General Assembly or tuition. UNC is authorized to change, with approval of the Director of the Budget, the means of finance for the projects authorized in the Bill and increase or decrease the cost of the project. UNC is allowed to issue debt over 5% of the total cost of the project, including any increase authorized by the Director of the Budget, to cover various costs of issuance of the debt. The proposed indebtedness authorized under this Bill is not a debt of the State.

UNC must also report to the Joint Legislative Commission on Governmental Operations before October 1, 2013 regarding the projects. The report must include a project description; a detailed five year revenue history; a detailed five year revenue forecast; information regarding the nature of the financing; and, anticipated costs associated with the project.

Winston Salem State University (WSSU) is granted an exemption to sell alcohol at the Bowman-Gray Stadium authorized for acquisition under this Bill. WSSU also has additional requirements placed upon them regarding the operation of the Stadium with respect to motor racing. Current law requires that projects financed under this statutory Article be on the campus in question, this requirement is set-aside for the purpose of acquiring the Bowman Gray Stadium.

**ASSUMPTIONS AND METHODOLOGY:** The following reflects additional information received from UNC after the June 26, 2013 Fiscal Note was completed for the prior edition of the bill. Information has been updated to reflect more current revenue and expenditure information.

Each campus is presented discretely due to the varied nature of the projects under consideration and the information available to evaluate the projects. The table below provides information on the projects within Section 2 of this bill and provides the proposed sources of funding. Article 3 of G.S. 116D authorizes all obligated resources to be used as means of repayment and does not limit the source of funding to the sources presented in the table below. If an existing fee or receipt is to be used, the table identifies the fee and any annual increase associated with the fee. In some cases, the project will be financed by a new fee, and the amount is provided in the table. UNC and the campuses assume no General Fund impact from the projects proposed for authorization.

**Table 1: Project Detail**

Campus	Project	Amount	Source	Existing Fee/Receipt Increase	New Fee
ASU	Anne Belk Hall Renovation	4,000,000	Debt Service Fee	No	\$14.00
ASU	Soccer Field to Field Hockey	1,500,000	Debt Service Fee	No	\$10.00
ECU	Belk Hall Demolition and Reconstruction Supplement	16,000,000	Housing Receipts	2.00%	No
ECU	Women and Children's Clinic Facility	71,605,960	Hospital Receipts	No	No
NCAT	New Student Center	90,000,000	Debt Service Fee	No	\$450.00*
NCSU	Carmichael Locker Room Renovation	7,600,000	Debt Service Fee	No	\$27.50
UNC-CH	Rizzo Center Phase III Acquisition	36,000,000	Endowment	No	No
UNC-CH	Odum Village Replacement	25,000,000	Housing Receipts	3.00%	No
UNC-CH	Craige Parking Deck Supplement	4,000,000	Parking Receipts	No	No
UNC-C	Holshouser Hall Renovation	16,000,000	Housing Receipts	6.50%	No

UNC-C	Oak Hall Renovation - Phase V	8,900,000	Housing Receipts	6.50%	No
UNC-C	Residence Hall - Phase XIII	34,750,000	Housing Receipts	6.50%	No
UNC-G	Spartan Village - Phase I Acquisition	67,000,000	Housing Receipts	3.50%	No
WCU	Upper Campus New Residence Hall	48,000,000	Housing Receipts	5.00%	No
WSSU	Bowman Gray Stadium and Civitan Park Acquisition	7,500,000	Debt Service Fee	No	\$110.00
WSSU	New Residence Hall - Freshman Living/Learning	20,800,000	Housing Receipts	5.00%	No
<b>Total</b>		<b>458,655,960</b>			

\*NCAT's increase will be phased in over four years. The 2016-17 school year will experience the full \$450 increase.

In addition to the debt to be authorized above, the campuses at the UNC system have existing debt that has been authorized under Article 3 of G.S. 116D and Part 4 of G.S. 116 (Revenue Bonds). The amount of outstanding debt, revenue available to support debt service, and annual debt service payment for FY 2012 at the UNC System campuses are presented in the table below:

**Table 2: Outstanding Debt, Pledged Revenue, and Debt Service (FY 2012)**

Campus	Outstanding Debt	Resources Available for Debt Service	Debt Service Payment
ASU	255,172,062	162,051,341	19,193,840
ECU	162,935,971	434,385,998	24,801,854
ECSU	37,415,643	10,387,589	1,380,000
FSU	25,693,213	14,645,566	1,402,801
NCA&T	14,405,000	54,020,592	1,422,911
NCCU	93,958,436	27,659,078	7,581,205
NCSU	417,646,121	535,302,000	27,673,842
UNC-A	43,661,169	34,459,608	1,960,838
UNC-CH	1,362,772,538	1,747,511,000	82,199,626
UNC-C	360,679,486	223,012,923	9,298,837
UNC-G	231,355,524	136,916,527	13,008,432
UNC-P	79,261,189	24,688,846	5,430,066
UNC-W	246,855,063	107,556,200	17,542,016
UNC-SA	8,275,000	11,745,100	847,913
WCU	116,938,835	86,510,740	9,189,890
WSSU	70,887,358	9,603,943	5,519,091
<b>Total</b>	<b>3,527,912,608</b>	<b>3,620,457,051</b>	<b>228,453,162</b>

For the projects UNC estimates that increased expenditures will be required to service the debt and to operate and maintain the constructed facilities. Additionally, increased revenue will be generated by any new fee or increase to existing fee. The discussion below provides estimates for each campus, utilizing information provided by each campus and UNC.

*Appalachian State University:*

Appalachian State University (ASU) has two planned projects under consideration. The Anne Belk Hall Renovation project would repurpose approximately 30,000 square feet of underutilized library space on the campus. The second project converts a soccer field to a field hockey field. Both projects are financed by a new per student annual debt service fee. Both UNC and ASU estimate that enrollment will remain relatively flat over the long term at the university. The projects involve existing facilities, thus no additional operating impact is expected. For the Anne Belk Hall project, ASU expects to issue the debt with a term of 25 years and an interest rate of 3.5%. Under ASU’s analysis, the amount of funds generated by the debt service fee leaves a 6% shortfall, approximately. This 6% amount equates to approximately \$250,000 of the total project cost of \$4 million. ASU expects to cover this assumed shortfall with any appropriation to the Reserve for Repair and Renovation (funds are not yet available for FY 2013-14), unrestricted endowment funds; scaling the project down to meet available funding; or, some combination of the three discussed options. From 2003 to 2012 ASU has issued bonds with an average interest rate of 4.84% - 2.84%, respectively. In 2012, ASU issued two different refunding bonds with an average interest rate of 3.80% and 3.98%.

**Table 3: ASU Consolidated Project Information**

	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18
Debt Service Fee Revenue	368,592	368,592	368,592	368,592	368,592
Operating Expense	0	0	0	0	0
Debt Service Expense	(331,914)	(331,914)	(331,914)	(331,914)	(331,914)
Total	36,678	36,678	36,678	36,678	36,678

*East Carolina University:*

East Carolina University (ECU) has two planned projects under consideration. One project is to increase the amount authorized in 2012 for the reconstruction of Belk Residence Hall. The total project authorization would rise to \$56 million. The source of repayment is housing receipts for

this project, which are to increase by approximately two percent annually per tenant to cover increased costs. The second project would construct a 140,000 square foot medical facility and 900 space parking facility. The sources of repayment are parking fees for the garage and receipts generated by ECU Physicians Practice Plan.

The figures presented in Table 4 reflect revenues and expenditures associated with the Belk Project alone. The first year loss in FY 2015-16 will be covered by cash balances. The entire housing receipts will support debt service. The amount of annual revenue available per annual debt service requirement is expected to be at a ratio of 1.41 after this project is completed. ECU expects to issue the debt with a term of 30 years with an interest rate of 3.5%.

The Women and Children’s Clinic and Parking Garage will include a onetime transfer from the parking fund of \$5.5 million to lower the debt financed portion of the project. Once the parking facility is running, ECU estimates the facility to generate an additional \$500,000 for debt service. According to ECU, the parking related enterprises currently generate in excess of \$1 million per year in net revenues. For the Women and Children’s Clinic, the ECU Physicians Practice Plan will be the source of receipts to support debt service. The Plan currently generates excess operating revenue. The Plan has generated approximately \$42.9 million in excess revenues for the last two complete fiscal years and for the current fiscal year. The Plan is generating less in revenue for the current fiscal year due to lower reimbursement rates and timing of payments (FY 2012-13 excess revenues are estimated to be \$5.5 million). ECU expects additional savings from foregone lease expenses (\$1 million in savings); a reduction in administrative expenses from moving it a single location (\$450,000 per year); and, additional profits related to increased facility utilization (\$1 million). ECU expects to issue the debt with a term of 30 years with an interest rate of 4.5%.

The projects are presented separately due to the different nature of the projects.

**Table 4: ECU Project Information**

	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18
<b>Belk Residence Hall</b>					
Increased Dorm Revenue	0	0	3,852,840	3,949,161	4,047,890
Additional Operating Expense	0	0	(683,500)	(704,005)	(725,125)
Debt Service Expense	0	0	(3,238,485)	(3,245,485)	(3,238,485)
Total	-	-	(69,145)	6,671	84,280
Additional FTE	0	0	3	3	3
<b>Women and Children Clinic and Parking Garage</b>					
Transfer from Parking Fund	5,500,000			500,000	500,000
Savings from ECU Own				2,450,000	2,450,000

Space					
General Plan Revenue				1,071,146	1,071,146
Debt Service Expense				(4,021,146)	(4,021,146)
Total	\$5,500,000	0	0	0	0
Additional FTE	0	0	0	0	0

*North Carolina Agriculture and Technical University:*

North Carolina Agriculture and Technical University (NCAT) has a planned new 175,000 square foot student union building that will be financed by a new \$450 per student annual debt service fee. The new fee will be phased in over a four year period. NCAT expects a slight increase in student population over the five year period and thereafter. In addition, NCAT expects the facility to generate an additional \$2 million in revenue due to retail and dining operations once it is fully online. NCAT assumes that the debt will be issued with a term of 30 years at an interest rate of 5.00%.

**Table 5: NCAT Project Information**

	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18
Debt Service Fee and Retail Revenue	554,400	1,675,500	2,817,500	7,142,600	7,226,750
Operating Expense	0	0	0	(526,320)	(526,320)
Debt Service Expense	0	0	(2,438,550)	(5,394,225)	(5,485,050)
Total	554,400	1,675,500	378,950	1,222,055	1,215,380

*North Carolina State University:*

North Carolina State University has a planned renovation to the Carmichael Recreation Center Locker Room. The project will be financed by a new \$27.50 per student annual debt service fee. Student population is assumed not to increase. NCSU assumed the debt to have a term of 15 years with and interest rate of 4.75%.

**Table 6: NCSU Project Information**

	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18
Debt Service Fee Revenue	767,388	767,388	767,388	767,388	767,388
Operating Expense	0	0	0	0	0
Debt Service Expense	(720,000)	(720,000)	(720,000)	(720,000)	(720,000)
Total	47,388	47,388	47,388	47,388	47,388

*University of North Carolina-Chapel Hill:*

The University of North Carolina-Chapel Hill (UNC-CH) has three projects planned for construction. The Rizzo Center Phase III project is an expansion of a facility at the business school to add 72 guest beds, a 172 space parking deck, and additional teaching space. The project is to be financed from gifts, cash, and conference center receipts. The Odum Village project will replace an existing housing facility. This project will be repaid from housing receipts. Housing receipts are expected to rise three percent per year, per tenant to provide sufficient revenue. The final project is a supplement to the Craige Parking Deck. This project was approved in 2005 and again in 2012. This supplement would provide an additional 900 spaces. Parking receipts would pay the debt service associated with the deck. All project information in Table 7 includes existing project revenues and expenses. The assumed interest rate for the debt is 6%.

**Table 7: UNC-CH Project Information**

	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18
<b>Rizzo Hall Phase III</b>					
Project Revenue	8,932,061	10,797,920	12,234,256	13,326,401	14,710,530
Operating Expense*	(6,419,583)	(6,999,936)	(7,492,619)	(7,842,558)	(8,365,907)
New Debt Service Expense	0	(2,179,467)	(2,179,467)	(2,179,467)	(2,179,467)
Existing Debt Service	(1,400,000)	(1,400,000)	(1,400,000)	(1,400,000)	(1,400,000)
<b>Total</b>	<b>1,112,478</b>	<b>218,517</b>	<b>1,162,170</b>	<b>1,904,376</b>	<b>2,765,156</b>
<b>Odum Village Replacement</b>					
Additional Housing Revenue	0	0	0	3,200,000	3,296,000
Operating Expense	0	0	0	(1,400,000)	(1,442,000)
Debt Service Expense	0	0	0	(1,800,000)	(1,800,000)
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>54,000</b>
<b>Craige Parking Deck Supplement</b>					
Existing Revenue Stream	23,040,000	23,558,400	24,088,464	24,630,454	25,184,640
Additional Operating Expense	(15,269,603)	(15,727,691)	(16,199,522)	(16,685,507)	(17,186,073)
New Debt Service Expense	(290,596)	(290,596)	(290,596)	(290,596)	(290,596)
Existing Debt Service	(7,281,319)	(7,258,650)	(7,241,636)	(7,207,536)	(7,194,287)
<b>Total</b>	<b>198,482</b>	<b>281,463</b>	<b>356,710</b>	<b>446,815</b>	<b>513,684</b>

*University of North Carolina – Charlotte*

The University of North Carolina – Charlotte (UNCC) has three dormitory projects planned for renovation and construction. UNCC plans to renovate two existing dorms and construct a new 430 bed dormitory. Housing receipts would finance each project and are projected to be increased by 4.0% each year per tenant to provide the necessary revenue. The dorms are all assumed to come online in FY 2015-16 while the debt is assumed to be issued for a term of 30 years at an interest rate of 5.03%. UNCC expects the amount of annual revenue available per annual debt service requirement is expected to be at a ratio of 1.2 after this project is completed

**Table 8: UNCC Consolidated Project Information**

	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18
Housing Revenue	0	0	6,885,642	7,161,068	7,447,510
Operating Expense	0	0	(2,213,125)	(2,268,453)	(2,325,164)
Debt Service Expense	0	0	(3,872,960)	(3,872,960)	(3,872,960)
Total	0	0	1,019,655	1,019,655	1,019,655

*University of North Carolina - Greensboro*

The University of North Carolina at Greensboro (UNCG) has a project planned to acquire an existing complex known collectively as Spartan Village Phase 1. Spartan village currently includes five residence halls, academic space, mixed-use space, and parking. The current facility was constructed by the UNCG Capital Facilities Foundation. The facility will house approximately 870 new students. There is an expected increase of 3.5% in housing charges per tenant and an increase in operating expenditures of 2.5% factored into UNCG’s analysis. UNCG expects the amount of annual revenue available per annual debt service requirement is expected to be at a ratio of 2.0 after debt associated with the project is issued. Operating losses for this project will be covered by housing receipts, which are expected to generate \$13.9 million in FY 2013-14.

**Table 9: UNCG Project Information**

	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18
Operating Revenue	4,368,194	5,862,648	6,067,840	6,280,215	6,500,022
Operating Expense	(1,474,000)	(1,921,852)	(1,969,898)	(2,019,146)	(2,069,624)
Debt Service Expense	(1,400,000)	(5,025,000)	(5,025,000)	(5,025,000)	(5,025,000)
Total	1,494,194	(1,084,204)	(927,058)	(763,931)	(594,602)
Additional FTE	23	23	23	23	23

*Western Carolina University:*

Western Carolina University (WCU) has a new 600-bed dormitory planned. The proposed project would demolish an existing structure to build the new facility. Housing charges are expected to increase 5% annually per tenant in order to pay for the facility and other costs. Based on current information provided by WCU, the project is expected to operate at a loss once it is completely online. WCU will conduct additional analysis to scale the project, and/or increase revenues to bring expenditures in line with revenues. The Housing System is expected to generate \$17 million in net operating profit in FY 2013-14 which will be available to offset costs associated with this project. The ratio of available annual revenue to cover annual debt service for FY 2011-12 was 2.22 and is expected to be approximately 2.2 for the first two years of construction and debt service payments. Once the project is online, assuming no additional debt financed projects are authorized, the debt service coverage ratio is expected to be between 2.3 to 2.8. The debt is assumed to be issued for a 30-year term with an interest rate between 3.25 and 5.25%. WCU's existing debt ranges from 2 to 5%.

**Table 10: WCU Project Information**

	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18
Housing Revenue	0	0	0	3,263,545	3,426,647
Operating Expense	0	0	0	(527,693)	(548,694)
Debt Service Expense	0	(1,624,041)	(1,624,041)	(3,224,041)	(3,224,041)
Total	0	(1,624,041)	(1,624,041)	(488,189)	(488,189)
Additional FTE	0	0	0	4	4

*Winston Salem State University:*

Winston Salem State University (WSSU) has two projects planned for acquisition. The first project is to acquire the Bowman Gray Stadium from the City of Winston Salem for \$7.1 million. WSSU currently utilizes the stadium for their motor sports management program and football team. The stadium is also used for race events in the community. WSSU assumes that race events will continue to be a source of revenue. The stadium acquisition will be financed by a new \$110 per student annual debt service fee. Student population is expected to remain flat the first five years and increase slightly thereafter. The second project is for a new 295 bed suite style residence hall. The project will be financed through housing receipts. Housing charges are expected to increase 5%, per tenant, per year. WSSU expects that the annual revenue available to cover annual debt service payments to be at a ratio of 1.15 after the debt has been issued. WSSU assumed debt to be issued at a 25 year term with a 4.2% interest rate for the Bowman Gray Stadium Project. The new residence hall is assumed to be financed with debt issued for 30 years at a 4.9 % interest rate.

**Table 11: WSSU Project Information**

	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18
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Bowman Gray Stadium					
Operating Revenue	879,919	911,461	942,104	971,826	1,004,353
Debt Service Fee Revenue	581,900	581,900	581,900	581,900	581,900
Operating Expense	(858,597)	(880,062)	(902,064)	(924,615)	(947,731)
Debt Service Expense	(490,000)	(490,000)	(490,000)	(490,000)	(490,000)
Total	113,222	123,299	131,940	139,111	148,522
Additional FTE	1.2	1.2	1.2	1.2	1.2
New Residence Hall					
Additional Housing Revenue	0	0	2,042,543	2,144,670	2,251,904
Operating Expense	0	0	(641,191)	(660,427)	(680,240)
Debt Service Expense	0	0	(1,332,945)	(1,332,945)	(1,332,945)
Total	0	0	68,407	151,298	238,719
Additional FTE	0	0	10	10	10

**SOURCES OF DATA:** University of North Carolina General Administration, Constituent Campuses, Office of the State Auditor – Financial Audits

**TECHNICAL CONSIDERATIONS:** None

**FISCAL RESEARCH DIVISION: (919) 733-4910**

**PREPARED BY:** Mark Bondo

**APPROVED BY:**

Mark Trogdon, Director  
**Fiscal Research Division**

**DATE:** July 10, 2013



**Signed Copy Located in the NCGA Principal Clerk's Offices**